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Surveys of Consumers

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REBOUND IN CONFIDENCE CONTINUES: PERSONAL FINANCES SETS PACE

- The Index of Consumer Sentiment rose to 94.6 in the March 1988 survey, up from 91.6 in February. This sharp rebound from the post crash low of 83.3 recorded in November 1987 has brought the Index to its highest level since 1986. The fall in confidence following the stock market crash was largely confined to expectations concerning the general economy, with little impact on personal financial evaluations. Consumers' views toward economic prospects in general as well as personal finances have improved since then. While the rebound in the outlook for the general economy has reversed the post crash losses, it still leaves these expectations less favorable that one or two years earlier. In contrast, the improvement in personal finances has brought these evaluations to record levels.

- Among families with incomes of $30,000 or more, the Index rose to 103.7 in the March 1988 survey from 98.1 in February.

- Since the start of 1988, consumers have voiced very positive views of their personal financial situation. Among all families in the March 1988 survey, 49 percent reported that their financial situation had improved during the past year. In only one prior survey, conducted almost a quarter century earlier, was a higher proportion recorded—and it was just one percentage point higher (50 percent in May 1965). When asked to explain why their financial situation had improved, more families in the March 1988 survey reported that their family income had increased than since the mid 1960s. Among all families, 40 percent reported income increases in March 1988, just above the already improved 39 percent recorded in both January and February.

- Financial prospects for the year ahead have also been viewed very favorably since the start of 1988. Among all families in the March 1988 survey, 39 percent expected their financial situation to improve during the year ahead, unchanged from one month earlier but significantly above the year earlier reading of 33 percent. In comparison, just 6 percent of all families in the March 1988 survey expected their financial situation to worsen during the year ahead. This improvement has been paced by the expectation of larger income increases during the year ahead. Income increases were expected by 60 percent of all families in March 1988, up from 57 percent one year earlier; income increases of 6% or more were expected by 31 percent in March 1988, up from 23 percent one year earlier.

- Job prospects were also viewed more favorably. The proportion of families that expected increases in the national unemployment rate fell to 28 percent in the March 1988 survey, from 36 percent in November and 35 percent one year earlier. While few families expected further decline in the unemployment rate in March (12 percent), given that unemployment is now at a nine year low, the 58 percent that expected an unchanged unemployment rate during the year ahead is clearly a very positive outlook.

- Consumers views of economic conditions in the country as a whole have improved significantly over the post crash lows, but they still remain less favorable than a year earlier. Among all families in the March 1988 survey, 47 percent expected good times financially, up from 38 percent in November, but it remained below the 55 percent recorded last March. Overall, the majority of families (58 percent) expected the performance of the national economy to remain unchanged during the year ahead.

- Attitudes toward buying conditions for homes continued to post gains in the March survey. Among all families, favorable attitudes toward buying conditions for homes were held by 71 percent in March, up from 67 percent in February and substantially above the post crash low of 58 percent in November. More favorable perceptions of both home prices and mortgage rates have been responsible for this improvement. Among all families in the March survey, 27 percent mentioned the appeal of current prices, up from 16 percent in November. Lower mortgage rates were mentibned by 47 percent in March, up from 32 percent in November. Despite the strong recent improvement, home buying attitudes still remain less favorable than a year earlier, when 80 percent held favorable attitudes toward home buying conditions, with 66 percent referring to low mortgage rates to support their view.

- Favorable attitudes toward vehicle buying conditions have recorded only modest gains. In the March 1988 survey, 62 percent held favorable car buying attitudes, up from 59 percent in February and 57 percent in November. Since the November low, there has been no change in the proportion referring to either the availability of price discounts (32 percent) or reduced interest rates (20 percent). Compared with a year earlier, car buying attitudes are somewhat less favorable, primarily because of fewer references to interest rate discounts (falling from 43 to 21 percent). Despite this sluggish performance, the current level is still more favorable than in any prior expansion.

- Attitudes toward buying conditions for furniture, appliances, and home electronics have remained unchanged at favorable levels. The March surveys in both 1988 and 1987 recorded 71 percent of all families that held favorable buying attitudes for these products. Favorable perceptions of market prices for these household durables continue to underpin these favorable attitudes.

- These results indicate that the post crash rebound in consumer confidence has exceeded the initial declines. The initial reaction of consumers was to adopt a "wait and see" position. Consumers primarily expressed uncertainty and confusion over the meaning and implications of the stock market collapse. This resulted not so much in changed expectations, as in a change in the frame of reference used to evaluate new information, along with a heightened focus on economic news. Ongoing economic developments were scrutinized for information on whether the stock market collapse would engulf the entire economy, not on whether the economy would meet pre-crash expectations for economic growth. Subsequent developments in the economy have not only acted to disconfirm these earlier fears, but the developments have been judged more favorably under the changed perspective. In short, the initial decline in consumer sentiment has been more than offset by the subsequent rebound. Rather than indicating renewed optimism, it has been built on lowered expectations. Just as these data indicate that a consumer led recession in 1988 is not in the making, neither will there be a renewed boom in consumer spending. Sales of homes, vehicles, furniture, appliances, and home electronics will remain favorable, but fail to regain the prior peaks.

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The March 1988 survey was conducted between March 1 and March 28, 1988 and included 500 completed interviews.